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Top Secret

(Security Classification)

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NATIONAL INTELLIGENCE DAILY CABLE

Friday July 16, 1976

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NATIONAL SECURITY INFORMATION

Unauthorized Disclosure Subject to Criminal Sanctions

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State Dept. review completed

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National Intelligence Daily Cable for Friday, July 16, 1976.

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The NID Cable is for the purpose of informing senior US officials.

LEBANON

Palestine Liberation Organization chief Yasir Arafat has apparently linked his agreement to travel today to Damascus for talks to a Syrian withdrawal from both Sidon and Sawfar.

According to a leftist-oriented Beirut newspaper, Libyan Prime Minister Jallud, who has long been trying to negotiate a settlement, arrived from Damascus yesterday carrying a "Syrian peace plan" to Arafat and the Palestinian leadership. The plan apparently contained no significant Syrian concessions.

Damascus specified that only after relations between Syria and the Palestinians had returned to what they were in the past--presumably a reference to previous restrictions on Palestinian activity--would Syrian forces "concentrate in specific areas."

Syria also indicated that it would not withdraw completely from Lebanese territory until Lebanese factions had been reconciled and the country's institutions were once again functioning.

Palestinian sources stated yesterday afternoon that the Syrians had begun to withdraw from Sawfar--Syria's forward position on the Beirut to Damascus road--as well. These gestures may be sufficient to persuade Arafat that a trip to Damascus could be undertaken without loss of face.

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[] The extent of the Syrian pullback is unclear. Damascus will almost certainly remain in position for a hasty return should negotiations fall through. The lack of a general outcry against Syria at the Arab League meeting earlier this week has given Damascus considerable flexibility; it probably feels that it can lose nothing by making an effort to probe Arafat's willingness to reach some kind of accommodation.

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[] The Syrians can be expected to take a tough line in any meeting with Arafat. They will, at a minimum, hold out for full implementation of the Cairo accords controlling Palestinian activity.

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[] It is doubtful that Arafat could bring the rest of the Palestinians, let alone the Lebanese leftist leadership, along with him should he reach an understanding with the Syrians.

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[] Christian leaders, meanwhile, are viewing the Syrian withdrawals with alarm. A Christian delegation has nevertheless returned from Damascus with reassurances from President Asad that Syria intends to pursue its initiative "to the end."

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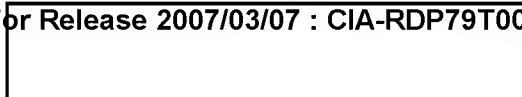
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EGYPT

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[] In a move apparently intended to keep the military out of politics, the People's Assembly this week passed a bill that effectively disenfranchises the military and the police. Presidential and parliamentary elections are scheduled for October.

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[] President Sadat gave a series of speeches last spring in which he made it clear that the army should concern itself only with military matters, and Gamasy late last year announced that any military men who join the new political groupings in the People's Assembly will be court-martialed.

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[] By depriving military personnel of the right to vote, the government undoubtedly hopes to render them a less attractive target for agitators interested in turning out a large anti-government vote in the elections. Disenfranchisement, however, could cause more problems than it will solve.

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[] With members of the military now deprived of the vote as a means of communicating their grievances, some of them could be tempted to use extra-legal means.// []

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USSR-SYRIA

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[] A leftist Beirut newspaper has reported that the Soviet Union has cut off shipments of arms, ammunition, and spare parts to Syria until it withdraws all its troops from Lebanon. Quoting what it called reliable Arab diplomatic sources, the paper alleged that Moscow had threatened to take other measures as well if Syrian military intervention continued.

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[] We cannot confirm reports of an arms cut-off and view them with skepticism. According to Reuters, a Soviet embassy source did not deny the report but said he doubted that the USSR would go beyond political and diplomatic pressure.

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[] The USSR might, however, delay some shipments to demonstrate its displeasure with Syrian policy.

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PERU

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[] President Morales Bermudez may benefit briefly from the show of support he received from all major military commands after the abortive revolt last week, but dissatisfaction and lack of unity in the military may be more widespread than was initially apparent.

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[] Dissatisfaction in the army seems to be directed against leftist Prime Minister and Army Commander Fernandez Maldonado. Morales Bermudez has been under severe pressure for several months to remove the Prime Minister--who is due to retire in 1978--but so far the pressure has been only from individual, moderate army officers.

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25X1 [] Aside from the military dissension, Morales Bermudez faces problems of public order. After several days' of quiet following disorders on July 1, protest riots against government economic austerity measures broke out in two northern cities. The government has now banned all unauthorized meetings, prohibited strikes, and canceled national holiday parades, presumably including the traditional independence celebration on July 28.

25X1 [] Morales Bermudez' economic program faces a test this week in negotiations between a Peruvian financial delegation and New York bankers. Citing the recent austerity measures, the Peruvians hope to obtain a \$400-million stopgap loan. Finance Minister Barua has said he will resign if he does not get the loan. The departure of Barua, a civilian who has been Morales Bermudez' principal economic adviser for years, would reverse the recent trend toward civilian participation in government.

25X1 [] Meanwhile, word of Peru's negotiations to buy sophisticated Soviet fighter-bombers has reached Chile, which will probably publicize the prospective purchase in hopes of bolstering its own efforts to buy arms. News of the expensive purchase will not go over well in Peru, where the domestic austerity measures are causing price increases and a decline in real wages. []

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THE NETHERLANDS

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[] The Dutch government will impose a wage settlement for the second half of 1976 following the breakdown of government-industry-labor negotiations. The settlement will boost the monthly take-home pay of the average Dutch worker by about \$15, increasing industry's total wage bill slightly more than 9 percent this year.

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[] The Dutch Trade Union Federation had demanded an average \$20-per-month raise, and Dutch labor has strongly protested the government's decision to impose a settlement. The federation has appealed to Parliament, which generally supports the government's move, and the leader of the Dutch Transport Workers Union has threatened to strike.

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[] The imposition of a wage settlement reflects the government's concern that a lengthy dispute between management and labor, in addition to its adverse economic effects, would increase tensions within Prime Minister den Uyl's fragile five-party coalition. The government parties, already at odds over a wide range of economic and political issues, are anxious to maintain their coalition in the nine months remaining before the national election.

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[] The government has announced price restraints designed to limit inflation to 8.5 percent. Price hikes will be restricted to 2 percent for the remainder of 1976, increases in utility

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rates have been postponed, and professional fees have been frozen at current levels. During the first half of this year, Dutch prices rose at an average annual rate of 9.3 percent. [REDACTED]

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UK

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[REDACTED] //The British government is apparently under growing domestic pressure to end its opposition to an international common fund to stabilize world commodity prices by developing buffer stocks of raw materials.//

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[REDACTED] //If Britain shifts its stand on commodity policy, West Germany will be the only EC member still publicly opposed to the fund. At the recent UNCTAD meeting, the UK, West Germany, and the US objected to the common fund proposal partly on the grounds that it would involve an open-ended commitment of funds by the developed nations. They pressed instead for negotiating agreements on a commodity-by-commodity basis.//

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[REDACTED] //Many British experts consider the establishment of the common fund inevitable; most spokesmen believe it would be difficult to modify the Group of 77's original proposal for a common fund without running into strong resistance from the developing nations.//

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[REDACTED] //Labor ministers are being accused by members of their own party of alienating the Commonwealth developing countries as well as giving the UK a bad reputation in the third world as a whole. Some British pressure groups argue that London's free market stand on commodities is at variance with the government's socialist policies at home. [REDACTED]

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VIETNAM

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[REDACTED] With formal reunification completed, Hanoi is taking a decidedly more flexible and conciliatory line in dealing with its Southeast Asian neighbors.

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[] //The joint Vietnamese-Philippine communique issued in Manila on Monday indicates that Hanoi has tempered, and in some cases eliminated, demands that have frustrated past negotiations with Southeast Asian countries. The Vietnamese, for example, dropped their demand for the return of war materiel brought into the Philippines shortly after the fall of Saigon last year and for placing specific limitations on US use of foreign bases.// Remarks by Vietnamese officials, moreover, suggest that Hanoi may even be softening its rhetoric in support of insurgencies in neighboring countries.

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[] The Philippine communique--and the message that Deputy Foreign Minister Phan Hien is promoting elsewhere on his current swing through the area--reflects the "four principles" enunciated by party chief Le Duan earlier this month in ceremonies commemorating formal reunification:

- Mutual respect for sovereignty and independence.
- Prohibition on use of foreign military bases to attack Vietnamese soil.
- Improvement in economic and cultural cooperation.
- Settlement of disputes through negotiations.

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[] The establishment of formal ties between Vietnam and the Philippines promises important political dividends for both countries. President Marcos views the move as another step toward his goal of reducing Philippine identification with the US and promoting some balance in Manila's foreign relations, and probably assumes it will help avoid confrontation over islands in the Spratlys. The communique, for example, pledges that neither party will permit its territory to be used for "aggression" against the other. Manila may intend to use this provision to underscore its demand in the current renegotiation of the US bases agreement that Filipinos be given veto power over US military activities staged from the bases.

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[] For their part, the Vietnamese almost certainly view the provision on the use of bases as an indication of Filipino de-emphasis of security cooperation with the US and as an example for the Thai to follow if they wish to establish formal relations with Hanoi.

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25X1 [] Hanoi is using its more conciliatory negotiating position to enhance its position among the nonaligned countries at their summit conference next month and increase its support for admission to the UN this fall.

25X1 [] Vietnam's moderation and flexibility will also net some immediate assistance from its neighbors to help reconstruct its economy. The Vietnamese would like to reduce their heavy reliance on the USSR and China, and they probably hope that a more pragmatic approach may eventually help pave the way for assistance from the US.

25X1 [] The Vietnamese delegation visited Kuala Lumpur before going to Manila, and it will also stop in Singapore, Jakarta, and Rangoon. These stops already have produced commitments for limited economic assistance; Malaysia has offered to aid the Vietnamese rubber industry; Singapore, the Philippines, and Indonesia have said they will explore ways to help Vietnam's oil exploration efforts; and Burma plans to provide some help to develop cottage industry and medical assistance.

25X1 [] Thailand is the only Southeast Asian country that has not yet established formal ties with Vietnam and the only ASEAN country not included on the delegation's itinerary. Both Hanoi and Bangkok announced last week, however, that a Thai delegation led by Foreign Minister Phichai will visit Hanoi in August. Given Hanoi's more conciliatory foreign policy line, the establishment of Thai-Vietnamese relations in the near future seems probable.

25X1 [] If it follows the pattern set in Manila, Hanoi probably will not insist that the Thai return war materiel brought into Thailand after Saigon's collapse. Hanoi is also now convinced that Bangkok is serious about restricting the US presence in Thailand. The Thai, for their part, are likely to be encouraged by Hanoi's muting of its support for insurgencies.

BURMA

[] //The discovery by the Burmese government of a budding coup plot and the subsequent arrest of some of the army's brightest junior officers is apparently sowing fear and confusion at senior levels of the government.//

[] //A number of junior officers assigned to key military leaders have been arrested so far. The coup plotters were apparently motivated by opposition to the corruption of their superiors and by concern over economic stagnation in Burma. A number of senior officers may fear that the attention this incident focuses on corruption within the government will place them in jeopardy, particularly in view of President Ne Win's continuing anti-corruption campaign and the President's tendency to deal harshly with offenders.//

[] Under Ne Win's leadership, the Burmese military maintains tight control over the government; in the past it has not hesitated to crush any emerging opposition that seemed to threaten it. Senior officers may try to use the present opportunity to eliminate all officers they think have been involved in the recent plot before any testimony endangers their own positions. Because of the good reputation of the officers involved, however, heavy-handed action against them could make them martyrs within the Burmese military. In any case, the public image of a monolithic army loyally supporting Ne Win is likely to be damaged. []

JAMAICA

[] //Jamaican opposition leader Edward Seaga has told the US embassy that the government's actions under the present state of emergency have so demoralized his party that it might not contest the coming national election.//

[] //Seaga, head of the Jamaican Labor Party, said an extraordinary party conference on July 25 will make the decision on whether to participate. The election must be held by next May, but Seaga believes Prime Minister Manley will set the date for this September. Seaga said he sees no hope for his party in an election held under state of emergency conditions; he indicated that a "dramatic collapse" of the opposition is at hand.//

25X1 [] //Seaga's despondent mood is in sharp contrast to his initial reaction to the state of emergency declared by Manley on June 19. Soon after the first arrests of Labor Party leaders, he expressed confidence that public opinion was turning against the government because of its blatantly partisan tactics. He now says the government has continued to arrest Labor Party candidates and has taken other measures that make campaigning impossible. Seaga disclosed that he had asked former prime minister Shearer to replace him as party leader but that Shearer refused.//

25X1 [] //Seaga has reason to be dispirited. Before the state of emergency was implemented, the Labor Party stood a good chance of winning a fair election. The government's actions, reflecting Manley's willingness to take any measures necessary to ensure his re-election, have greatly weakened Seaga's party.//

25X1 [] //Seaga is given to emotional ups and downs but has always been a fighter, and it is out of character for him to be throwing in the towel so early in a game with high stakes for him and his party. [] 25X1

25X1 URUGUAY

25X1 [] Aparicio Mendez Manfredi, a 72-year-old law professor, has been named president-elect of Uruguay. He is expected to continue Uruguay's friendly attitude toward the US and be responsive to direction from the military hierarchy.

25X1 [] Mendez was appointed by the Council of the Nation--a military-civilian body that was assigned the task of selecting a new chief of state. He apparently will assume office on September 1. Mendez succeeds Interim President Alberto Demicheli, who was named by the military in June to replace ousted president Bordaberry.

25X1 [] An expert in administrative law and the president of the Council of State that replaced the national congress in 1973, Mendez was responsible for developing the legal rationale behind the removal of Bordaberry. He says that his administration will lead the country back to representative democracy.

WORLD COPPER MARKET

Despite a strong recovery in demand this year, the world copper industry is still operating far below capacity. Barring strikes and other supply interruptions, the industry will easily cover consumption requirements through 1978 and probably through 1980. Prices nonetheless may continue to rise in the months ahead.

In 1975, the copper industry faced the widest gap between supply and demand since World War II. The recession in major developed countries reduced consumption to 5.5 million tons, compared with 6.9 million tons in 1973. Despite large production cuts, copper stocks reached 1.5 million tons toward the end of 1975.

Prices on the London Metals Exchange sank to 50 cents per pound, down from a peak of \$1.52 in April 1974. Efforts by members of the Intergovernmental Council of Copper Exporting Countries to moderate the price decline proved ineffectual, given the magnitude of the fall in demand and their inability to organize supply. Although demand has rebounded over the past six months, the industry is still operating far below capacity.


Present consumption patterns suggest that requirements for refined copper could reach about 6.9 million tons this year--25 percent above last year's low level but still well below capacity. Copper demand should reach 7.4 million tons by 1978 if the major industrial countries follow the same growth patterns they have in earlier recovery periods.

We expect refining capacity to stand at 8.9 million tons. The industry could satisfy a demand of 7.4 million tons while operating at 83 percent of capacity. This margin of spare capacity should enable the industry comfortably to handle temporary demand peaks. With no prolonged interruptions in mining operations, copper ore supplies should be adequate to support refinery requirements throughout the period.

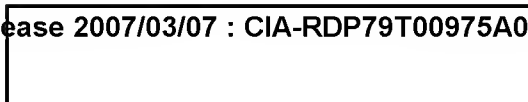
If consumption increases sharply, many of the expansion plans now shelved can be revived in time to avoid capacity constraints even assuming more rapid growth in demand. At present, reasonably sure estimates of additions to refining capacity between 1978 and 1980 total 420,000 tons; projects involving another 320,000 tons have been postponed.



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 The absence of refining constraints does not mean prices will remain low. With demand improving, prices on the London Metals Exchange have risen from 54 cents in January to 76 cents currently. The price rise has been helped along by speculative purchases associated with declines in the British pound earlier this year and with expectations of further price hikes. Price movements will also remain highly sensitive to any supply interruptions caused by strikes, transport problems, or political instability in any of the major producing countries.

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